

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF NEWMARKET, INC.)
FOR AN ADJUSTMENT OF RATES PURSUANT) CASE NO. 9676
TO THE ALTERNATIVE PROCEDURE FOR)
SMALL UTILITIES)

O R D E R

On August 27, 1986, Newmarket, Inc., filed its application seeking to increase its rates in order to generate additional revenues of \$13,302 annually, an increase of 34.5 percent over its normalized revenues. On October 22, 1986, the Commission's staff performed a limited review of Newmarket's operations for the purpose of evaluating the requested increase in rates. On December 2, 1986, Staff issued its report containing its findings and recommendations.

Intervenors in this matter are Don Van Dyke and Stephen D. Berger on behalf of himself and certain customers of Newmarket. Under the regulations for the alternative rate procedure, 807 KAR 5:076, the Attorney General's Division of Consumer Protection is deemed to be an intervenor although it did not actively participate in this proceeding. Mr. Berger filed the only comments in response to the staff report and requested a hearing but only if the Commission found it necessary in order to give Mr. Berger's comments adequate consideration. The Commission is of the opinion that it can adequately respond to the intervenor's

comments without a public hearing and has addressed them as follows:

Professional Fee

In its application Newmarket proposed a pro forma professional fee of \$1,000, the cost of preparing and filing the rate case. In its report, staff recommended that the level of this expense be accepted and amortized over a 3-year period. The intervenor's response to the staff report stated that the record does not show the nature of the professional consultants retained or the work performed in relation to this proceeding and therefore the expense is unjustified and excessive. The rate case fee was for the hiring of an accountant to prepare the needed test period financial data and application. It has been the experience of this Commission that for a utility of Newmarket's size a rate case expense of \$1,000 for an abbreviated rate filing is in a normal and reasonable range. Therefore, the Commission accepts staff's recommendations as set out in its report.

Management Fee

Newmarket reported a test period owner/manager fee of \$1,800. The intervenor's response stated that neither the application nor record contained information that reveals the nature of the services performed or the reasonableness of the charge. This fee is for the overseeing of the day to day operations of the utility by the owner and replaces the need for the hiring of a full-time employee which would mean increased expense to the utility.

In a prior rate case for Newmarket, Case No. 9117,¹ the Commission found the owner/manager fee of \$1,800 to be reasonable and no evidence has been presented in this proceeding to dissuade this Commission from its previous finding. Therefore, the Commission will accept the proposed management fee of \$1,800.

Free Sewer Service

The intervenor further stated that free sewer service to the owner of the utility is a violation of statute KRS 278.170(2) and that disallowing free service in the future is not adequate. Mr. Berger proposes that there should be a reduction in Newmarket's future sewer rates commensurate with the owner's past free service. However since Newmarket's past rates were calculated to disallow this free service, thus resulting in its having no measurable effect on either the customers or the utility's financial condition, the Commission is of the opinion that the staff's recommendation is correct and that a further penalty is not needed in this instance.

Operating Ratio

In its report staff recommended that Newmarket be granted an operating ratio of 88 percent to allow Newmarket to pay its operating expenses and provide a reasonable return to its owner. The intervenor believes that Newmarket's owner is not entitled to a return on investment since the entire cost of plant has been recovered through the sale of lots and the owners of Newmarket

¹ The Application of Newmarket, Inc. for a Rate Adjustment Pursuant to the Alternative Filing Procedure for Small Utilities, Final Order issued January 3, 1985, pages 3-5.

have no actual investment in the plant. The intervenor stated further that the Commission should allow rates sufficient to cover Newmarket's test period operating expenses alone.

Operating expenses have a tendency to fluctuate from year to year, especially maintenance expense which normally increases with the age of the utility plant. However, staff in its report recommended a level of operating expenses which it deemed representative of a recurring, ongoing level reasonably expected to be incurred by Newmarket. The fact that the entire cost of plant was recovered through the sale of lots is reflected in the exclusion of depreciation expense from the total expense level recommended by staff, with the exception of depreciation of \$1,618 on the capital improvements made to plant during 1986.

This depreciation exclusion reduces the total amount of cash flow available to Newmarket to meet unexpected or abnormal expenditures which, absent a return on operations, could result in a subsidy of Newmarket by its owners or the possible erosion of Newmarket's financial condition. Either event would necessitate the more frequent filing of rate applications. In the absence of any evidence to the contrary the Commission is of the opinion that the 88 percent operating ratio recommended by staff for determining a return on operations per the staff report satisfies the statutory requirement that a utility may collect fair, just, and reasonable rates and therefore accepts it for rate-making purposes in this proceeding.

The Commission further accepts the findings and recommendations set out in the staff report not specifically disallowed herein.

SUMMARY

The Commission, based on the evidence of record and being advised, is of the opinion and finds that:

1. Upon review of the intervenor's comments in response to the staff report, the Commission finds little merit with the arguments presented and affirms the recommendations of the staff report.

2. The rate proposed by Newmarket should be denied upon application of KRS 278.030 in that it will produce revenues in excess of those found reasonable herein.

3. The rate in Appendix A is fair, just and reasonable for Newmarket in that it will produce annual operating revenues of \$47,029.

IT IS THEREFORE ORDERED that:

1. The rate proposed by Newmarket be and it hereby is denied.


2. The rates in Appendix A be and they hereby are approved for service rendered by Newmarket on and after the date of this Order.

3. Within 30 days from the date of this Order, Newmarket shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 11th day of February, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9676 DATED 2/11/87

The following rates and charges are prescribed for the customers in the area served by Newmarket, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Single Family Residential	\$18.10 per month
Commercial	27.60 per month
(per residential equivalent)	